



# STATE OF TENNESSEE INDEBTEDNESS REPORT



JUNE 30, 2019

**JUSTIN P. WILSON**  
*Comptroller of the Treasury*



**JASON E. MUMPOWER**  
*Deputy Comptroller*



JUSTIN P. WILSON  
*Comptroller*

JASON E. MUMPOWER  
*Deputy Comptroller*

August 7, 2019

The Honorable Bill Lee, Governor  
The Honorable Randy McNally, Lieutenant Governor  
The Honorable Bill Dunn, Speaker Pro Tempore of the House of Representatives  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

The semi-annual State Indebtedness Report of the State of Tennessee is presented to provide updated information on the four state debt issuers: The State Funding Board for Tennessee's General Obligation Debt, the Tennessee Local Development Authority, the Tennessee State School Bond Authority and the Tennessee Housing Development Agency. The report compares outstanding indebtedness at June 30, 2019, and at December 31, 2018. It also includes information on authorized and unissued debt and credit ratings for each debt issuer. Finally, the report presents information on the loan programs administered by the Office of State and Local Finance: the Clean Water State Revolving Fund, the Drinking Water State Revolving Fund, the Energy Efficient Schools Initiative and the State Infrastructure Fund.

We appreciate the commitment of the members of the State Funding Board, the Tennessee Local Development Authority, the Tennessee State School Bond Authority, and the Bond Finance Committee of the Tennessee Housing Development Agency and thank them for their help and support of the debt issuance and management process. We also thank our staff in the Office of State and Local Finance and the Tennessee Housing Development Agency for their constant attention to the details of these important financing programs.

Respectfully submitted,

A handwritten signature in blue ink that reads "Justin P. Wilson".

Justin P. Wilson  
Comptroller of the Treasury

C: Senate Finance, Ways and Means Committee  
The Honorable Bo Watson, Chair  
The Honorable John Stevens, 1<sup>st</sup> Vice-Chair  
The Honorable Joey Hensley, 2<sup>nd</sup> Vice-Chair

House Finance, Ways and Means Committee  
The Honorable Susan Lynn, Chair  
The Honorable Patsy Hazlewood, Vice-Chair  
The Honorable Andy Holt, Finance Subcommittee Chair

Fiscal Review Committee  
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The Honorable Todd Gardenhire, Vice-Chair  
Krista Lee Carsner, Director

Office of Legislative Budget Analysis  
Catherine Haire, Senate Budget Analysis Director  
Peter Muller, House Budget Analysis Director

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# Tennessee Debt Issuers

## **State Funding Board (SFB)**

The SFB has responsibility for issuing all State general obligation bonds and notes authorized by the General Assembly. The State utilizes general obligation commercial paper to short-term finance its capital projects during the construction period. As projects are completed, the commercial paper is repaid with the proceeds from the issuance of long-term debt (general obligation bonds.) The SFB debt management policy is located on the [Comptroller's website](#).

## **Tennessee State School Bond Authority (TSSBA)**

The TSSBA is responsible for the administration of the following programs.

### **Higher Educational Facilities Bond Program**

The TSSBA is delegated the responsibility for issuing bonds and notes to provide funds:

- to make loans to state institutions of higher learning to construct revenue-generating facilities, and
- to make funds available to the Tennessee Student Assistance Corporation for student loans under the Guaranteed Student Loan Program.

The TSSBA utilizes a revolving credit facility to short-term finance projects during the construction period. As projects are completed, the facility is repaid with the proceeds from the issuance of long-term debt (Higher Educational Facilities Program bonds).

### **Qualified Zone Academy Bond Program (QZAB)**

The QZAB program is a federal tax credit program created under Section 226 of the Taxpayer's Relief Act of 1997. The proceeds of the QZABs were used to make loans to local governments for certain educational projects. Security for the QZABs is the general obligation pledge of the local government borrowers. The program is additionally secured with an intercept of the local governments' state-shared taxes. There is no cross default to the Higher Educational Facilities Bond Program.

### **Qualified School Construction Bond Program (QSCB)**

The QSCB program is a federal tax credit (2009) /federal direct subsidy (2010) program established through the American Recovery and Reinvestment Act of 2009 (ARRA). The proceeds of the 2009 and 2010 QSCBs were used to make loans to local governments for certain qualified school construction projects. The TSSBA issued all of the QSCB bonds allocated under ARRA, so no additional debt will be issued for this program. Security for the QSCBs is the general obligation pledge of the local government borrowers. The program is additionally secured with an intercept of the local governments' state-shared taxes. There is no cross default to the Higher Educational Facilities Bond Program.

The TSSBA debt management policy is located on the [Comptroller's website](#).

### **Tennessee Local Development Authority (TLDA)**

The TLDA has the responsibility for issuing its debt obligations to provide funds for the following purposes:

- to make loans to local governments for the financing of construction and improvements for water and sewer systems;
- to make loans to local governments for the financing of certain capital projects;
- to make loans to certain small business concerns for pollution control facilities;
- to make loans to farmers for certain capital improvements;
- to make loans to counties for the acquisition of equipment for use by county or volunteer fire departments serving unincorporated areas of the counties;
- to make loans to airport authorities and municipal airports; and
- to make loans under the Community Provider Program to mental health institutes and substance abuse facilities.

The TLDA debt management policy is located on the [Comptroller's website](#).

### **Tennessee Housing Development Agency (THDA)**

THDA provides mortgage loan products at competitive interest rates to lower and moderate income persons and families in order to create safe, sound, and affordable housing opportunities across the State. The Bond Finance Committee of the THDA Board of Directors is responsible for overseeing THDA debt issuance. THDA has issued debt pursuant to the following four (4) general resolutions: the Housing Bond Resolution (Mortgage Finance Program) (the "1974 General Resolution"), the Homeownership Program Resolution (the "1985 General Resolution"), the Housing Finance Program Resolution (the "2009 General Resolution"), and the General Residential Finance Program Bond Resolution (the "2013 General Resolution"). No debt is currently outstanding under the 1974 General Resolution. THDA is currently issuing debt only under the 2013 General Resolution. The 2013 General Resolution does not carry the moral obligation pledge of the State. The THDA debt management policy is located on the [Comptroller's website](#).

# State of Tennessee Indebtedness Report

(Unaudited)

	<u>As of December 31, 2018</u>		<u>As of June 30, 2019</u>		<u>Variance Increase (Decrease)</u>	
	<u>Number of Loans / Projects</u>	<u>Debt Outstanding</u>	<u>Number of Loans / Projects</u>	<u>Debt Outstanding</u>	<u>Number of Loans / Projects</u>	<u>Debt Outstanding</u>
<b><u>Long-term General Obligation Debt</u></b>						
General Obligation Bonds Outstanding	1,874	\$ 1,759,935,000	1,874	\$ 1,738,615,000	-	\$ (21,320,000)
<b><u>General Obligation Commercial Paper</u></b>						
Tax-Exempt	66	\$ 122,133,000	82	\$ 172,133,000	16	\$ 50,000,000
Taxable	5	55,263,000	5	65,263,000	-	10,000,000
Total Commercial Paper Outstanding	71	\$ 177,396,000	87	\$ 237,396,000	16	\$ 60,000,000
<b><u>Tennessee State School Bond Authority</u></b>						
Higher Education Facilities Program						
Bonds Outstanding	188	\$ 1,509,730,000	187	\$ 1,498,245,000	(1)	\$ (11,485,000)
Revolving Credit Facility (RCF) Outstanding:						
Tax-Exempt	21	\$ 103,404,744	20	\$ 145,304,744	(1)	\$ 41,900,000
Taxable	15	34,534,520	15	33,434,413	-	(1,100,107)
Total Revolving Credit Facility <sup>1)</sup>	36	\$ 137,939,264	35	\$ 178,739,157	(1)	\$ 40,799,893
Qualified Zone Academy Bond Program						
Bonds Outstanding	11	\$ 30,145,000	11	\$ 30,145,000	-	\$ -
Qualified School Construction Bonds						
Series 2009	13	\$ 177,000,000	13	\$ 177,000,000	-	\$ -
Series 2010	15	\$ 212,440,000	15	\$ 212,440,000	-	\$ -
<b><u>Tennessee Local Development Authority</u></b>						
Bonds Issued and Outstanding	10	\$ 2,465,000	7	\$ 1,970,000	(3)	\$ (495,000)
<b><u>Tennessee Housing Development Agency</u></b>						
Mortgage Loans / Principal Outstanding	24,863	\$ 2,326,990,000	25,982	\$ 2,575,725,000	1,119	\$ 248,735,000
<b>Total State Indebtedness:</b>		<b><u>\$ 6,334,040,264</u></b>		<b><u>\$ 6,650,275,157</u></b>		<b><u>\$ 316,234,893</u></b>

**Footnotes:**

1) As of June 30, 2019, there was one project that had been funded with both taxable and tax-exempt proceeds from the RCF.

# Change in Debt Outstanding from Prior Period

## **General Obligation Debt**

- During the period from December 31, 2018, to June 30, 2019, bond principal matured in the amount of \$21,320,000.
- The increase in commercial paper outstanding was comprised of four new commercial paper issuances totaling \$60,000,000 and no repayments.

## **Tennessee State School Bond Authority (TSSBA)**

### **Higher Education Facilities Program**

- During the period from December 31, 2018, to June 30, 2019, bond principal matured in the amount of \$11,485,000.
- The revolving credit facility loans outstanding increased by \$40,799,893, comprised of draws on the facility in the amount of \$45,000,000 and payoffs in the amount of \$4,200,107.

### **Qualified Zone Academy Bond Program (QZAB)**

- As of June 30, 2019, the fund balance amount, held in the pledged sinking fund accounts available to repay the bonds, is \$26,282,252.

### **Qualified School Construction Bond Program (QSCB)**

- As of June 30, 2019, the fund balance held in the pledged sinking fund accounts available to repay the QSCBs totaled \$213,632,934.

## **Tennessee Local Development Authority (TLDA)**

- During the period from December 31, 2018, to June 30, 2019, bond principal matured in the amount of \$495,000.

## **Tennessee Housing Development Agency (THDA)**

- Bond principal outstanding increased by \$248,735,000 during the period. The increase was a combination of:
  - New bonds issued under the 2013 General Resolution in the original principal amount of \$375,000,000, and
  - Bonds that matured, or were redeemed in accordance with their terms, in the principal amount of \$126,265,000.



# Authorized/Unissued Debt

(Unaudited)

	As of December 31, 2018	As of June 30, 2019	Variance Increase (Decrease)
General Obligation	\$ 1,232,769,553 <sup>1)</sup>	\$ 1,326,975,075	\$ 94,205,522
Tennessee State School Bond Authority (TSSBA)	\$ 419,074,178 <sup>2)</sup>	\$ 375,021,730 <sup>2)</sup>	\$ (44,052,448)
Tennessee Local Development Authority (TLDA)	\$ 305,000,000 <sup>3)</sup>	\$ 305,000,000 <sup>3)</sup>	\$ -
TLDA Capital Projects	\$ 75,000,000	\$ 75,000,000	\$ -
Tennessee Housing Development Agency (THDA)	\$ 603,010,000 <sup>3)</sup>	\$ 354,275,000 <sup>3)</sup>	\$ (248,735,000)
<b>Total Authorized/Unissued Debt</b>	<b>\$ 2,634,853,731</b>	<b>\$ 2,436,271,805</b>	<b>\$ (198,581,926)</b>

## Footnotes:

1)	Authorized and Unissued as of 6/30/18	\$ 1,324,549,553	A/U 12/31/18	\$ 1,232,769,553	\$ (91,780,000)
	Less: Canceled 2018/2019	(91,780,000)		(29,794,478)	\$ 61,985,522
	New Bond Authorization 2019-2020	-		124,000,000	\$ 124,000,000
	Authorized and Unissued as of 12/31/18	<u>\$ 1,232,769,553</u>	A/U 6/30/19	<u>\$ 1,326,975,075</u>	<u>\$ 94,205,522</u>
	TDOT Bond Authorization	\$ 560,000,000		\$ 687,000,000	\$ 127,000,000
	TDOT Bond Authorization - Bridges	58,800,000		29,700,000	\$ (29,100,000)
	Capital Projects Bond Authorization	613,969,553		610,275,075	\$ (3,694,478)
	<u>\$ 1,232,769,553</u>			<u>\$ 1,326,975,075</u>	<u>\$ 94,205,522</u>

2) Amount indicated is capital projects approved by the TSSBA and the State Building Commission. Project expenditures in the amount of \$44,052,448 were funded from short term debt.

3) Amount indicated is the unissued remaining statutory debt limit.

# Bond Ratings by Program

	<u>Fitch</u>	<u>Moody's</u>	<u>S&amp;P</u>
State of Tennessee	AAA	Aaa	AAA <sup>1</sup>
Tennessee State School Bond Authority (TSSBA)	AA+	Aa1 <sup>2</sup>	AA+ <sup>3</sup>
TSSBA, Qualified School Construction Bonds (QSCB) Series 2009 (Tax Credit Bonds)	n/a	Aa1 <sup>2</sup>	AA+ <sup>1</sup>
TSSBA, Qualified School Construction Bonds (QSCB) Series 2010 (Federally Taxable – Direct Subsidy Payment)	AA	Aa1 <sup>2</sup>	AA+ <sup>1</sup>
Tennessee Local Development Authority (TLDA)	AA	n/a <sup>4</sup>	AA+
Tennessee Housing Development Agency (THDA) 1985 Resolution	n/a	Aa1	AA+
THDA 2009 Resolution (Single Family New Issue Bond Program)	n/a	Aa2	n/a
THDA 2013 Resolution	n/a	Aa1	AA+

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**1** On May 26, 2016, S&P Global Ratings upgraded the State of Tennessee's bond rating from AA+ to AAA. On the same date, S&P Global Ratings upgraded the TSSBA's Qualified School Construction Bonds Series 2009 and 2010 from AA to AA+, following the upgrade of the State's rating.

**2** Explanation of Moody's Investors Services Inc. Ratings:

The ratings for these bonds are analyzed under the pre-default enhanced credit program by Moody's Rating Services. Moody's assigns separate ratings for the program and for each series of bonds issued under the program.

Tennessee State School Bond Authority (TSSBA)

Programmatic rating - Aa1

Financing rating - Aa1

TSSBA, Qualified School Construction Bonds (QSCB), Series 2009 (Tax Credit Bonds)

Programmatic rating - Aa1

Financing rating - Aa2

TSSBA, Qualified School Construction Bonds (QSCB), Series 2010

Programmatic rating - Aa1

Financing rating - Aa2

**3** On July 27, 2016, S&P Global Ratings upgraded the TSSBA's Higher Education Bonds from AA to AA+.

**4** On September 18, 2015, Moody's Investors Services Inc. downgraded the Authority's bond rating from Aa3 to A2. On November 13, 2015, Moody's Investors Service Inc. withdrew the Authority's A2 rating.

# Annual Debt Service for State of Tennessee General Obligation Bonds

as of June 30, 2019  
(Unaudited)

	PRINCIPAL	INTEREST	DEBT SERVICE REQUIRED
FY 2020	155,765,000	74,211,953	229,976,953
FY 2021	149,000,000	67,196,873	216,196,873
FY 2022	149,305,000	60,260,530	209,565,530
FY 2023	141,345,000	53,493,143	194,838,143
FY 2024	138,690,000	47,545,135	186,235,135
FY 2025	131,535,000	42,072,058	173,607,058
FY 2026	129,325,000	36,542,110	165,867,110
FY 2027	122,270,000	31,254,688	153,524,688
FY 2028	117,480,000	26,261,709	143,741,709
FY 2029	108,995,000	21,352,030	130,347,030
FY 2030	84,645,000	16,965,337	101,610,337
FY 2031	73,500,000	13,301,920	86,801,920
FY 2032	65,625,000	10,108,938	75,733,938
FY 2033	43,370,000	7,595,375	50,965,375
FY 2034	36,365,000	5,672,000	42,037,000
FY 2035	36,365,000	3,853,750	40,218,750
FY 2036	30,815,000	2,174,250	32,989,250
FY 2037	16,505,000	991,250	17,496,250
FY 2038	<u>7,715,000</u>	<u>385,750</u>	<u>8,100,750</u>
	<b><u>\$ 1,738,615,000</u></b>	<b><u>\$ 521,238,798</u></b>	<b><u>\$ 2,259,853,798</u></b>

Note: New money general obligation debt is issued and structured as 20-year, level principal, fixed interest rate bonds.

# Tennessee Loan Programs

## **State Revolving Fund (SRF) Loan Programs**

The TLDA, in conjunction with the Department of Environment and Conservation, administers the Clean Water and Drinking Water SRF Loan Programs, which make loans to local governments for sewer and safe drinking water projects. The TLDA does not issue debt to finance these loans. The programs are funded by federal capitalization grants and state appropriations. Therefore, the dollar amount of loans managed for the SRF Loan Programs is not included in the Total State Indebtedness.

### **Clean Water State Revolving Fund (CWSRF)**

The Clean Water SRF Loan Program was established pursuant to the Federal Clean Water Act as amended by the Water Quality Act of 1987 and the State Wastewater Facilities Act of 1987.

### **Drinking Water State Revolving Fund (DWSRF)**

The Drinking Water SRF was established pursuant to the Federal Safe Drinking Water Act and the State Drinking Water Revolving Loan Fund Act of 1997.

## **State Infrastructure Fund (SIF) Loan Program**

The TLDA is also responsible for approving loans to local governments from the SIF for the construction of transportation infrastructure (street, highway, bridge, tunnel and any related roadway facilities) projects that provide public benefits by enhancing mobility or safety, promoting economic development, or increasing the quality of life and general welfare of the public. The TLDA administers the SIF program in conjunction with the Department of Transportation. The TLDA cannot issue debt to finance these loans. Therefore, the dollar amount of loans managed for the SIF Loan Programs is not included in the Total State Indebtedness.

## **Energy Efficient Schools Initiative (EESI) Loan Program**

The EESI Program was established by the Tennessee General Assembly in 2008 with a twelve-member council, the Energy Efficient Schools Council, to approve guidelines, award grants and loans, verify energy efficiencies, and establish and support energy management programs. The EESI grants and loans provide funding for capital outlay projects to improve the energy efficiency in Tennessee's public K-12 schools. The program was funded through an appropriation of excess lottery funds in 2008 and a subsequent state appropriation in 2019. The Energy Efficient Schools Council contracts with the Office of State and Local Finance for the administration of these loans. No debt is issued in the capital marketplace; therefore, the dollar amount of loans managed for the EESI Loan Programs is not included in the Total State Indebtedness.

# Loan Programs Administered by the Office of State and Local Finance

(Unaudited)

	<u>As of December 31, 2018</u>		<u>As of June 30, 2019</u>		<u>Variance</u> <u>Increase (Decrease)</u>	
	<u>Number of</u> <u>Loans /</u> <u>Projects</u>	<u>Loans</u> <u>Outstanding</u>	<u>Number of</u> <u>Loans /</u> <u>Projects</u>	<u>Loans</u> <u>Outstanding</u>	<u>Number of</u> <u>Loans /</u> <u>Projects</u>	<u>Loans</u> <u>Outstanding</u>
<b><u>State Revolving Fund Loan Program</u></b>						
Clean Water (Sewerage)						
Principal Outstanding	224	\$ 646,042,894	230	\$ 682,967,249	6	\$ 36,924,354
Drinking Water						
Principal Outstanding	138	135,772,312	140	132,690,199	2	\$ (3,082,113)
<b><u>State Infrastructure Fund (SIF)</u></b>	1	\$ 1,490,397	1	\$ 1,490,397	-	\$ -
<b><u>Energy Efficient Schools Initiative (EESI)</u></b>	70	58,981,169	75	65,676,054	5	\$ 6,694,885

# **Change in Loans Outstanding from Prior Period**

## **State Revolving Fund Loan Programs**

### **Clean Water State Revolving Fund (CWSRF)**

- During the period from December 31, 2018, to June 30, 2019, the loan balance increased \$36.9 million. Seven new loans were added to the program, and three loan increases were approved. One loan paid off in accordance with its repayment schedule. During this time, approximately \$17.7 million in loan repayments were received and approximately \$54.6 million was disbursed to borrowers.

### **Drinking Water State Revolving Fund (DWSRF)**

- During the period from December 31, 2018, to June 30, 2019, the loan balance decreased \$3.0 million. Five new loans were added to the program, and one loan paid off in accordance with its repayment schedule. Two loans were closed with no activity. During this time, approximately \$4.9 million in loan repayments were received and approximately \$1.9 million was disbursed to borrowers.

## **State Infrastructure Fund (SIF)**

- During the period from December 31, 2018, to June 30, 2019, no funds were disbursed to the one borrower.

## **Energy Efficient Schools Initiative (EESI)**

- During the period from December 31, 2018, to June 30, 2019, the loan balance increased approximately \$6.7 million. Five new loans were added to the program. During this time, approximately \$3.9 million in loan repayments were received and approximately \$10.6 million was disbursed to borrowers.

# **Board Membership**

## **State Funding Board**

Governor Bill Lee, Chairman  
Comptroller Justin P. Wilson, Secretary  
Secretary of State Tre Hargett  
State Treasurer David H. Lillard, Jr.  
Stuart C. McWhorter, Commissioner of Finance and Administration

## **Tennessee State School Bond Authority**

Governor Bill Lee, Chairman  
Comptroller Justin P. Wilson, Secretary  
Secretary of State Tre Hargett  
State Treasurer David H. Lillard, Jr.  
Stuart C. McWhorter, Commissioner of Finance and Administration  
Randy Boyd, Interim President, University of Tennessee  
Dr. Flora W. Tydings, Chancellor, Tennessee Board of Regents

## **Tennessee Local Development Authority**

Governor Bill Lee, Chairman  
Secretary of State Tre Hargett, Vice-Chairman  
Comptroller Justin P. Wilson, Secretary  
State Treasurer David H. Lillard, Jr.  
Stuart C. McWhorter, Commissioner of Finance and Administration  
Pat Wolfe, Washington County, Tennessee, Senate Appointee  
Dr. Kenneth Moore, Franklin, Tennessee, House Appointee

## **Tennessee Housing Development Agency** **Bond Finance Committee**

Kim Grant Brown, Chairman  
Comptroller Justin P. Wilson, Secretary  
Secretary of State Tre Hargett  
State Treasurer David H. Lillard, Jr.  
Stuart C. McWhorter, Commissioner of Finance and Administration

# Acknowledgments

## **Office of State and Local Finance**

Sandi Thompson, Director  
Martha L. Brown  
Lori Barnard  
Jacqueline Felland  
Tammy Fields  
Mark Graubner  
Donna Kaukas  
Cindy Liddell

Michael Mercer, CPA  
Steve Osborne  
Kathy Palmer  
Ron Queen, CPA  
Sheila Reed, CPA  
Sharon Schmucker, CPA  
Alicia West

## **Tennessee Housing Development Agency**

Trent Ridley, Chief Financial Officer  
Wayne Beard, CPA, Director of Finance